

Message Text

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ACTION TRSE-00

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CIAE-00 CIEP-03 COME-00 DODE-00 EB-11 FPC-01 H-03

INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 FRB-03 XMB-07

OPIC-12 LAB-06 SIL-01 FEA-02 DRC-01 PA-04 USIA-15

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TO SECSTATE WASHDC 4524

INFO AMEMBASSY LONDON

C O N F I D E N T I A L TOKYO 11847

PASS TREASURY AND FEDERAL RESERVE

EO 11652: GDS

TAGS: EFIN JA

SUBJ: JAPANESE BANKS ACQUIRE PETRODOLLAR DEPOSITS

SUMMARY: JAPANESE AM NEWS STORY (NIHON KEIZAI SHINBUN)
THAT CENTRAL BANKS OF MIDDLE EAST OIL-PRODUCING COUNTRIES HAVE
BEEN PLACING LARGE DEPOSITS WITH LONDON BRANCHES OF JAPANESE
BANKS STRENGTHENED YEN ABRUPTLY IN FOREX MARKET. END SUMMARY.

1. DISCUSSION OF PRESS REPORT WITH JAPANESE BANKERS PROVED
GENERALLY UNPRODUCTIVE. SOURCES SIMPLY CITED INCREASED MARKET
ACTIVITY BY JAPANESE LONDON BRANCHES IN SEEKING OIL DOLLARS.
BOJ FOREX OFFICIAL, ON THE OTHER HAND, PROVIDED ASSISTANT
FINATT WITH FOLLOWING CONFIDENTIAL DETAILS: AMOUNT
DEPOSITED SINCE AUG 1 TOTALS \$300 MILLION AND WILL CONTINUE
TO RISE RAPIDLY. TERMS INCLUDE NOT ONLY 3-MONTH AND
6-MONTH DEPOSITS BUT ALSO ONE-YEAR ACCOUNTS (WHICH
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REPRESENT AS MUCH AS 30 TO 40 PERCENT OF TOTAL).

2. FOREX MARKET IN PAST SEVERAL DAYS HAS BEEN WEAK. HOWEVER, FOLLOWING PRESS REPORT YEN STRENGTHENED ABRUPTLY BY 0.5 PERCENT WITH REPRESENTATIVE RATE OF Y300.85/\$1.

3. BOJ OFFICIAL CITED FOLLOWING REASONS FOR DIRECT PLACEMENT WITH JAPANESE LONDON BRANCHES: DESIRE BY OIL PRODUCERS TO DIVERSIFY INVESTMENT AND GREATER CONFIDENCE IN JAPANESE BANKS BECAUSE OF STRICT MOF AND BOJ CONTROL. IN PAST, MOST DEPOSITS OF JAPANESE LONDON BRANCHES HAVE BEEN THROUGH INTERBANK BORROWING. BOJ SOURCE STRESSED THAT A PRINCIPAL REASON FOR PLACEMENT OF DEPOSITS WITH JAPANESE BRANCHES WAS THE INCREASNG DIFFICULTY OIL PRODUCERS WERE ENCOUNTERING IN PLACEMENT OF EURO-DOLLAR DEPOSITS. JAPANESE BANKS ALSO PLEASED TO OFFER LONGER TERM DEPOSITS.

4. NEWSPAPER REPORT SAID OIL-PRODUCING COUNTRIES SUCH AS SAUDI ARABIA, KUWAIT, IRAN AND IRAQ BEGAN MAKING DEPOSITS IN LONDON BRANCHES OF DAI-ICHI KANGYO, FUJI, MITSUBISHI, MITSUI AND SUMITOMO BANKS IN LATE JULY. REPORT SAID SOME \$200 MILLION ALREADY DEPOSITED AT RATE HIGHER THAN 0.5 PERCENT ABOVE PREVAILING EURO RATES, WHICH IS FAR SMALLER THAN SO-CALLED "JAPAN" RATE ONCE 2 PERCENT ABOVE LIBO. PROCEEDS OF OIL DOLLAR DEPOSITS CANNOT BE USED TO MAKE LOANS IN JAPAN BUT WILL BE USED FOR JAPAN'S EXTERNAL TRANSACTIONS, INCLUDING IMPORTS. DEPOSITS CONSIDERED MOST WELCOME AND IS WAY FOR JAPAN TO HAVE DIRECT ACCESS TO PETRO-DOLLARS. THEY ARE ALSO EXPECTED TO IMPROVE THE TIGHT OVERSEAS BORROWING POSITION OF JAPANESE BANKS.
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